

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EUR-12 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
L-03 H-01 PA-01 PRS-01 IO-13 /109 W
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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 6811

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EO 11652 NA

TAGS: EFIN VE

SUBJ: GOV ACCEPTS APPLICATION OF UK LAW TO

\$1.2 BILLION LOAN

REF: CARACAS 1069

1. ACCORDING TO RESIDENT US BANK REP, VENEZUELAN CABINET HAS AGREED TO ACCEPT UK LAW AS BINDING IN ANY DISPUTE RELATED TO \$1.2 BILLION LOAN RECENTLY NEGOTIATED WITH INTERNATIONAL BANKING CONSORTIUM. ONLY EXCEPTION WOULD BE WHEN UK LAW CONTRARY TO VENEZUELAN CONSTITUTION. AS FAR AS WE KNOW THIS IS FIRST TIME GOV HAS AGREED TO THIS STIPULATION; ALL RECENT LOANS HAVE BEEN SUBJECT TO VENEZUELAN LAW.

2. COMMENT: DECISION WAS MADE IN RESPONSE TO PRESSURE FROM LEADERS OF CONSORTIUM WITH WHOM GOV NEGOTIATED LOAN. CONSORTIUM RAN INTO UNEXPECTED DIFFICULTIES WHEN TRYING TO ARRANGE TO SELL OFF PART OF \$1.2 BILLION LOAN TO OTHER BANKS, NOT ONLY BECAUSE OF LOW RETURN ON LOAN AND BECAUSE MARKET BECOMING SATURATED

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WITH VENEZUELAN PAPER, BUT ALSO (IT WAS FELT) BECAUSE POTENTIAL CUSTOMERS WERE SMALLER BANKS UNFAMILIAR WITH VENEZUELA AND ITS LAWS. THESE BANKS WILL PRESUMABLY FEEL MORE COMFORTABLE WITH UK LAW AND (THE CONSORTIUM HOPES) WILL NOW BE MORE WILLING TO TAKE SOME OF THE \$1.2 BILLION.

3. ACCORDING TO OUR INFORMANT, GOV PLANS NO
PUBLIC ANNOUNCEMENT OF DECISION, ALTHOUGH THE
SUBSTANCE OF IT WILL QUICKLY BECOME KNOWN IN
BANKING CIRCLES. FORMAL SIGNING OF LOAN AGREEMENT
NOW EXPECTED TO TAKE PLACE LAST WEEK OF MARCH.
END COMMENT.
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Message Attributes

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